



Nkomazi Local Municipality

**Annual Financial Statements
for the year ended 30 June 2012**

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Providing municipal services
Mayoral committee	
Executive Mayor	Khoza T S
Speaker	Macie K J
Chief whip	Mabuza S
Members of mayoral committee	Mhlanga M W (Budget and Treasury) Mkhatshwa S L (Planning and Development) Magagula P P (Corporate Services) Ngomane E M (Community and Social Services) Shongwe M R (Infrastructure)
Councillors	Cloete A Dikiza G K Hlahla B A Langa N P Letsoalo S M Luphoko P C Lusibane F N Mabuza V E Madolo S P Mahlalela S S Mahlalela E J Makamo L S Makhubela B S Makhubela J J Makhubela L S Malaza B B Mambane D S Maphanga D A Masilela D L Masilela D J Masilela T E Masuku S H Mathenjwa N D Mathonsi S S Mazibuko B C Mkhabela L A Mkhumbane M R Mkhumbane T C Mnisi D P Mnisi P M Mogiba G N Motha C M Mpofu J N (Deceased) Msithini S Z Mthombo T M Myeni N M Mziako P M Ndlala S J

Nkomazi Local Municipality

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General Information

	Ngomane B D
	Ngomane G B
	Ngomane L P
	Nkambule G J
	Nkentshane M E
	Nkosi J M
	Ntuli S J
	Preddy M M S
	Shabangu V T
	Shongwe M D
	Shongwe W H
	Shungube Z I
	Sibiya S C
	Silombo S R
	Thumbathi B P
	Vuma L T
	Zitha M A
	Zitha-Dlamini S
Grading of local authority	5
Accounting Officer	Ngwenya M D
Chief Finance Officer (CFO)	Khoza B T
Business address	Civic Centre 9 Park Street Malelane 1320
Postal address	Private Bag X101 Malelane 1320
Contact no	013 790 0245
Bankers	ABSA Bank Nelspruit
Auditors	The Auditor-General, Mpumulanga

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
CR	Capitalization Reserve
DBSA	Development Bank of Southern Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
GGR	Government Grant Reserve
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
IFRS	International Financial Reporting Standards
ME's	Municipal Entities

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and will be given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements will be examined by the municipality's external auditors and their report is expected before 30 November 2012.

The accounting officer is responsible for the preparation of these Annual Financial Statements, which are set out on the attached pages, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in the notes of the attached Annual Financial Statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Cooperative Governance and Traditional Affairs determination in accordance with this Act. The annual financial statements set out on pages 6 to 54, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012.

MD Ngwenya

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2012.

1. Review of activities

Main business and operations

The municipality is a medium capacity municipality, engaged in providing municipal services. It delivers basic services such as water, electricity and refuse removal services to the Malelane, Komaitpoort, Marloth Park and Hectorspruit region. The municipality provides free water and refuse removal services to rural areas within the local sphere of Nkomazi.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 40,581,020 (2011: deficit R 6,337,056).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any material matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officer of the municipality at the date of this report is mentioned on page 2.

6. Auditors

The Auditor-General, Mpumalanga will continue in office for the next financial period.

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Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	4	880,629	623,075
Operating lease asset	13	30,394	10,650
Receivables from exchange transactions	5	145,205	-
VAT receivable	6	4,637,644	9,253,902
Consumer debtors	7	28,002,124	29,868,605
Deposits made	14	540,778	540,778
Cash and cash equivalents	8	17,506,057	9,945,961
		51,742,831	50,242,971
Non-Current Assets			
Investment property	2	37,937,199	37,937,199
Property, plant and equipment	3	1,237,673,357	1,184,621,912
Intangible assets	9	191,249	152,428
		1,275,801,805	1,222,711,539
Total Assets		1,327,544,636	1,272,954,510
Liabilities			
Current Liabilities			
Other financial liabilities	11	1,159,104	1,374,575
Finance lease obligation	12	1,195,620	1,063,952
Operating lease liability	13	39,223	178,909
Trade and other payables	15	73,171,539	54,473,659
Unspent conditional grants and receipts	16	7,811,230	16,975,435
Provisions	17	7,577,148	11,389,819
Bank overdraft	8	16,223,791	12,986,347
		107,177,655	98,442,696
Non-Current Liabilities			
Other financial liabilities	11	3,208,562	3,263,429
Finance lease obligation	12	666,998	1,862,618
Operating lease liability	13	139,686	229,281
		4,015,246	5,355,328
Total Liabilities		111,192,901	103,798,024
Net Assets		1,216,351,735	1,169,156,486
Net Assets			
Accumulated surplus		1,216,351,735	1,169,156,486

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Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	21	36,457,554	29,014,752
Service charges	22	57,127,509	54,033,636
Rental of facilities and equipment		2,397,920	3,420,226
Interest earned - debtors		2,171,282	1,310,986
Licences and permits		22,803,079	7,071,112
Government grants & subsidies	25	386,079,923	292,264,662
Recoveries	26	799,547	630,693
Donations received	26	1,162,800	-
Other income	27	3,887,234	5,178,242
Investment revenue	24	2,109,486	4,531,503
Total Revenue		514,996,334	397,455,812
Expenditure			
Personnel	28	(176,867,081)	(164,840,596)
Remuneration of councillors	29	(15,867,584)	(14,107,252)
Depreciation and amortisation	30	(58,847,423)	(39,582,653)
Impairment loss	31	(1,129,105)	-
Finance costs	32	(1,864,870)	(3,109,187)
Debt impairment	33	(7,880,823)	1,541,772
Repairs and maintenance		(21,769,919)	(25,668,430)
Bulk purchases	35	(52,803,717)	(35,758,651)
Contracted services	34	(2,685,129)	(4,219,346)
General expenses	36	(134,699,663)	(118,048,525)
Total Expenditure		(474,415,314)	(403,792,868)
Surplus / (Deficit) for the year		40,581,020	(6,337,056)

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	726,530,503	726,530,503
Adjustments		
Adjustment - PPE & Investment property	432,179,274	432,179,274
Prior year adjustments	16,783,765	16,783,765
Balance at 01 July 2010 as restated	1,175,493,542	1,175,493,542
Changes in net assets		
Deficit for the year	(6,337,056)	(6,337,056)
Total changes	(6,337,056)	(6,337,056)
Opening balance as previously reported	1,172,129,468	1,172,129,468
Adjustments		
Prior year adjustments - PPE	(2,972,981)	(2,972,981)
Balance at 01 July 2011 as restated	1,169,156,487	1,169,156,487
Changes in net assets		
Adjustment - prior period accruals	1,948,433	1,948,433
Adjustment - VAT previously disallowed by SARS	4,665,795	4,665,795
Net income (losses) recognised directly in net assets	6,614,228	6,614,228
Surplus for the year	40,581,020	40,581,020
Total recognised income and expenses for the year	47,195,248	47,195,248
Total changes	47,195,248	47,195,248
Balance at 30 June 2012	1,216,351,735	1,216,351,735
Note(s)		

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Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Delivery of services and other revenue		129,435,711	85,407,179
Grants		386,075,899	292,264,662
Interest income		2,109,486	4,531,503
Other receipts		-	930,580
		517,621,096	383,133,924
Payments			
Employee and councillors related cost		(192,734,665)	(178,947,848)
Suppliers		(205,460,627)	(133,696,944)
Finance costs		(1,496,105)	(2,580,233)
		(399,691,397)	(315,225,025)
Net cash flows from operating activities	38	117,929,699	67,908,899
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(112,975,161)	(118,631,747)
Purchase of other intangible assets	9	(91,631)	-
Other non-cash item - Assets		1,162,800	1,919,300
Net cash flows from investing activities		(111,903,992)	(116,712,447)
Cash flows from financing activities			
Repayment of other financial liabilities		(270,338)	(738,769)
Finance lease payments		(1,432,717)	(1,717,716)
Net cash flows from financing activities		(1,703,055)	(2,456,485)
Net increase/(decrease) in cash and cash equivalents		4,322,652	(51,260,033)
Cash and cash equivalents at the beginning of the year		(3,040,386)	48,219,647
Cash and cash equivalents at the end of the year	8	1,282,266	(3,040,386)

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.1 Transfer of functions between entities under common control (continued)

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 18.

Effective interest rate

The municipality used an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows. Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of financial instruments, revenue and expenses at initial recognition. The adjustments requires a degree of estimation around the discount rates and periods used.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives and residual values

The municipality re-assesses the useful lives and residual values of property, plant and equipment on an annual basis. In re-assessing the useful lives and residual values of property, plant and equipment - management considers the conditions and use of individual assets, to determine the remaining period over which the asset can and will be used.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value on a straight-line method over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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Accounting Policies

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.s

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
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Accounting Policies

1.3 Property, plant and equipment (continued)

Land	Indefinite
Plant and machinery	5 - 20 years
Furniture and fixtures	5 - 10 years
Transport assets	7 - 20 years
Office equipment	5 - 10 years
IT equipment	5 - 10 years
Infrastructure assets	
• Roads and paving	10 - 100 years
• Dwellings	10 - 30 years
• Electricity	5 - 80 years
• Water	10 - 100 years
• Sewerage	15 - 60 years
• Solid waste disposal	15 - 55 years
Heritage assets	Indefinite

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

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Accounting Policies

1.4 Heritage assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	2 - 5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

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Accounting Policies

1.5 Financial instruments (continued)

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Investments

Financial instruments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are stated at cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Receivables from exchange transactions

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.5 Financial instruments (continued)

Accounts receivable are carried at anticipated realizable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified as irrecoverable. Amounts that are receivable within 12 months from the reporting date are classified as current.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.6 Leases (continued)

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of water inventories is assigned using the weighted average cost formula. The FIFO cost formula is used for all other inventories of the municipality.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.7 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

1.9 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Other post retirement obligations

The entity provides post-retirement medical scheme benefits upon retirement to some retirees.

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.14 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.15 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.19 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.20 Presentation of currency

These annual financial statements are presented in South African Rand.

1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.22 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned or controlled by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered in arm's length and in the ordinary course of business are not disclosed in accordance with IPSAS 20 Related Party Disclosure.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the municipality. We regard all individuals from the level of Municipal Manager and Council Members as key management per definition of the reporting standard.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or to be influenced by key management individuals, in their dealings with the municipality.

Related party disclosure for transaction between the municipality and the municipal entity that took place are disclosed in note 41.

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.25 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

1.26 Value Added Tax

The municipality accounts for Value Added Tax on payment basis.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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2. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	37,937,199	-	37,937,199	37,937,199	-	37,937,199

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	37,937,199	37,937,199

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	37,937,199	37,937,199

Investment property consist out of land only and is kept for capital appreciation.

The effective date of determination of the investment property prices for GRAP purposes was 1 July 2007. The depreciable replacement cost method was used. No independent valuation for the current year or prior year was conducted.

3. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	434,822,303	-	434,822,303	434,822,303	-	434,822,303
Buildings	101,992,908	(20,280,668)	81,712,240	94,070,370	(13,372,420)	80,697,950
Plant and machinery	20,677,000	(8,475,277)	12,201,723	18,419,138	(6,972,382)	11,446,756
Furniture and fixtures	7,913,396	(4,522,813)	3,390,583	7,679,712	(3,453,242)	4,226,470
Motor vehicles	34,609,607	(18,295,503)	16,314,104	33,994,797	(14,305,406)	19,689,391
IT equipment	13,303,817	(9,850,718)	3,453,099	12,958,446	(7,810,290)	5,148,156
Infrastructure - Electricity	56,508,428	(8,864,470)	47,643,958	56,508,428	(6,923,868)	49,584,560
Infrastructure - Roads	185,478,529	(44,081,265)	141,397,264	131,039,565	(24,277,635)	106,761,930
Capital work in progress	103,965,754	-	103,965,754	77,362,173	-	77,362,173
Infrastructure - Waste & Sewerage	17,898,602	(784,746)	17,113,856	12,232,182	(463,986)	11,768,196
Infrastructure - Water	453,192,674	(83,148,148)	370,044,526	438,300,741	(60,800,661)	377,500,080
Heritage	5,613,947	-	5,613,947	5,613,947	-	5,613,947
Total	1,435,976,965	(198,303,608)	1,237,673,357	1,323,001,802	(138,379,890)	1,184,621,912

Reconciliation of property, plant and equipment - 2012

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

3. Property, plant and equipment (continued)

	Opening balance	Additions	Transfers - WIP completed	Depreciation	Impairment loss	Total
Land	434,822,303	-	-	-	-	434,822,303
Buildings	80,697,950	4,264,641	3,657,897	(6,471,396)	(436,852)	81,712,240
Plant and machinery	11,446,756	2,257,862	-	(1,502,895)	-	12,201,723
Furniture and fixtures	4,226,470	233,683	-	(1,069,570)	-	3,390,583
Motor vehicles	19,689,391	614,809	-	(3,990,096)	-	16,314,104
IT equipment	5,148,156	345,371	-	(2,040,428)	-	3,453,099
Infrastructure - Electricity	49,584,560	-	-	(1,940,602)	-	47,643,958
Infrastructure - Roads	106,761,930	31,906,063	22,532,901	(19,111,377)	(692,253)	141,397,264
Capital work in progress	77,362,173	63,075,740	(36,472,159)	-	-	103,965,754
Infrastructure - Waste & Sewerage	11,768,196	3,339,752	2,326,668	(320,760)	-	17,113,856
Infrastructure - Water	377,500,080	6,937,240	7,954,693	(22,347,487)	-	370,044,526
Heritage	5,613,947	-	-	-	-	5,613,947
	1,184,621,912	112,975,161	-	(58,794,611)	(1,129,105)	1,237,673,357

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Transfers - WIP completed	Depreciation	Total
Land	434,822,303	-	-	-	434,822,303
Buildings	79,029,130	5,051,453	-	(3,382,633)	80,697,950
Plant and machinery	6,823,264	6,120,321	-	(1,496,829)	11,446,756
Furniture and fixtures	4,019,460	1,121,342	-	(914,332)	4,226,470
Motor vehicles	15,888,004	7,031,948	-	(3,230,561)	19,689,391
IT equipment	6,596,722	763,942	-	(2,212,508)	5,148,156
Infrastructure - Electricity	50,165,172	1,186,346	-	(1,766,958)	49,584,560
Infrastructure - Roads	110,931,898	4,843,884	-	(9,013,852)	106,761,930
Capital work in progress	34,380,113	60,672,836	(17,690,776)	-	77,362,173
Infrastructure - Waste & Sewerage	7,050,288	4,903,919	-	(186,011)	11,768,196
Infrastructure - Water	367,958,437	26,935,756	-	(17,394,113)	377,500,080
Heritage	5,613,947	-	-	-	5,613,947
	1,123,278,738	118,631,747	(17,690,776)	(39,597,797)	1,184,621,912

Impairment of assets

Buildings	436,852	-
Infrastructure Roads	692,253	-

Assets subject to finance lease (Net carrying amount)

IT equipment	1,509,037	2,684,619
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Details of properties

The fixed asset register is available for more details on Property, Plant and Equipment.

4. Inventories

Consumable stores	788,292	551,006
Water inventory	92,337	72,069
	880,629	623,075

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
5. Receivables from exchange transactions		
Interest receivable - Investments	145,205	-
6. VAT receivable		
VAT	4,637,644	9,253,902
VAT is payable on the receipts basis. Only once payment is received from debtors, the VAT portion of the receipt is paid over to SARS with input VAT only claimed when payment is made to creditors.		
7. Consumer debtors		
Gross balances		
Rates	20,462,889	16,590,684
Electricity, Water, Sewerage & Other	19,246,641	23,117,638
Fair value adjustment	(7,691)	(102,813)
	39,701,839	39,605,509
Less: Provision for bad debts		
Rates	(4,528,124)	(4,357,903)
Electricity, Water, Sewerage & Other	(7,171,591)	(5,379,001)
	(11,699,715)	(9,736,904)
Net balance		
Rates	15,934,765	12,232,781
Electricity, Water, Sewerage & Other	12,075,050	17,738,637
Fair value adjustment	(7,691)	(102,813)
	28,002,124	29,868,605
Net Rates		
Current (0 - 30 days)	3,929,200	1,715,488
31 - 60 days	2,148,059	1,171,366
61 - 90 days	1,300,051	(115,046)
91+ days	8,557,455	9,460,973
	15,934,765	12,232,781
Net Electricity, Water, Sewerage & Other		
Current (0 - 30 days)	3,109,529	4,481,729
31 - 60 days	960,526	1,644,798
61 - 90 days	650,655	(118,031)
91+ days	7,354,340	11,730,141
	12,075,050	17,738,637
Fair value adjustment		
Fair value adjustment	(7,691)	(102,813)
Summary of debtors by customer classification		

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
7. Consumer debtors (continued)		
Residential		
Current	3,136,625	2,514,479
31 - 60 days	1,458,442	1,451,915
61 - 90 days	1,192,269	(162,071)
91+ days	7,370,140	6,820,418
	13,157,476	10,624,741
Less: Provision for debt impairment	(3,876,619)	(2,605,663)
	9,280,857	8,019,078
Industrial/ commercial		
Current	5,185,252	4,408,423
31 - 60 days	2,091,714	1,265,412
61 - 90 days	887,277	(101,219)
91+ days	7,904,896	9,390,513
	16,069,139	14,963,129
Less: Provision for bad debts	(4,734,489)	(3,669,630)
	11,334,650	11,293,499
National and provincial government		
Current	478,838	346,147
31 - 60 days	295,618	328,562
61 - 90 days	256,499	(717)
91+ days	3,517,309	3,144,197
	4,548,264	3,818,189
Less: Provision for bad debts	1,340,066	(936,391)
	5,888,330	2,881,798
Schools, Churches, Hospitals & Clinics and Handovers		
Current	657,778	898,756
31 - 60 days	292,313	686,490
61 - 90 days	266,090	(45,857)
91+ days	4,718,470	8,654,532
	4,718,470	8,654,532
Less: Provision for bad debts	(1,748,541)	(2,525,221)
	4,186,110	7,668,700
Total		
Current	9,458,494	8,167,805
31 - 60 days	4,138,087	3,732,379
61 - 90 days	2,602,135	(309,865)
91+ days	23,503,123	28,015,190
	39,701,839	39,605,509
Less: Provision for bad debts	(11,699,715)	(9,736,904)
	28,002,124	29,868,605
Provision for bad debts		
Current (0 -30 days)	-	(2,111,732)
31 - 60 days	-	(981,851)
61 - 90 days	-	82,289
91+ days	(11,699,715)	(6,725,610)
	(11,699,715)	(9,736,904)

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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7. Consumer debtors (continued)

Reconciliation of bad debt provision

Balance at beginning of the year	(9,736,904)	(11,468,882)
Contributions to provision	(1,962,811)	1,541,771
Other movements	-	190,207
	(11,699,715)	(9,736,904)

Fair value of consumer debtors

The fair value of consumer debtors approximates their carrying amounts.

Consumer debtors impaired

As of 30 June 2012, consumer debtors were impaired and provided for.

The amount of the provision was R 11,699,715 as of 30 June 2012 (2011: R 9,736,904).

The ageing of these debtors are as follows:

1 month past due	-	589,594
2 and more months past due	11,699,715	9,147,310

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2,000	2,000
Bank balances	12,504,057	4,943,961
Short-term deposits	5,000,000	5,000,000
Bank overdraft	(16,223,791)	(12,986,347)
	1,282,266	(3,040,386)

Current assets	17,506,057	9,945,961
Current liabilities	(16,223,791)	(12,986,347)
	1,282,266	(3,040,386)

Additional disclosure:

The municipality has a cession of R5,000,000.00 as security in respect of ABSA investment for the guarantees that have been issued to Eskom by Absa bank.

Short term fixed deposits

Short term fixed deposits consists of :

ABSA - Account 2068718251	5,000,000	5,000,000
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Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
ABSA BANK, Malelane branch - Primary Account - Account number 1650 000 087	706,311	1,138,220	13,934,350	(16,223,791)	(12,986,347)	13,105,126
ABSA BANK, Malelane branch - MIG Account - Account number 4077034870	5,046,570	742,687	-	12,504,057	4,943,961	-
Total	<u>5,752,881</u>	<u>1,880,907</u>	<u>13,934,350</u>	<u>(3,719,734)</u>	<u>(8,042,386)</u>	<u>13,105,126</u>

9. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	286,186	(94,937)	191,249	194,555	(42,127)	152,428

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	152,428	91,631	(52,810)	191,249

Reconciliation of intangible assets - 2011

	Opening balance	Amortisation	Total
Computer software	191,312	(38,884)	152,428

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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10. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Loans and receivables	Total
Cash and cash equivalents	17,506,057	17,506,057
Other Receivables	540,778	540,778
Trade and other receivables	28,002,124	28,002,124
	46,048,959	46,048,959

2011

	Loans and receivables	Total
Cash and cash equivalents	9,945,961	9,945,961
Other receivables	540,778	540,778
Trade and other receivables	29,868,605	29,868,605
	40,355,344	40,355,344

11. Other financial liabilities

At fair value through surplus or deficit

Annuity loan - DBSA	4,367,666	4,638,004
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These loans from DBSA bear interest between 13,4% and 17,5% per annum are repayable in equal bi-annual repayments. Refer to Appendix A for more detail on borrowings

Long term borrowings have been utilised in accordance with the Municipal Finance Management Act.

Above borrowings from external parties were utilised in order to finance Property, Plant and Equipment.

There were no default on principal and interest repayments. None of the terms were renegotiated.

Non-current liabilities

Fair value through surplus or deficit	3,208,562	3,263,429
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Current liabilities

Fair value through surplus or deficit	1,159,104	1,374,575
	4,367,666	4,638,004

Refer to Appendix A for more detail on long-term liabilities.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
12. Finance lease obligation		
Minimum lease payments due		
- not later than one year	1,398,672	1,432,717
- later than one year and not later than five years	697,256	2,095,928
	2,095,928	3,528,645
Less: future finance charges	(233,310)	(602,075)
Present value of minimum lease payments	1,862,618	2,926,570
Present value of minimum lease payments due		
- not later than one year	1,195,620	1,063,952
- later than one year and not later than five years	666,998	1,862,618
	1,862,618	2,926,570
Non-current liabilities	666,998	1,862,618
Current liabilities	1,195,620	1,063,952
	1,862,618	2,926,570

It is the municipality's policy to lease certain computer and office equipment under finance leases.

The average lease term was 3 - 5 years and the effective borrowing rate was 12% (2011: 12%).

Interest rates on some contracts are fixed while others are linked to prime at the contract date. Some leases have fixed repayments while others escalate between 7.5% and 10% per annum.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 3.

Defaults and breaches

There were no default on principal and interest repayments. None of the terms and conditions were renegotiated.

13. Operating lease asset (accrual)

Current assets	30,394	10,650
Non-current liabilities	(139,686)	(229,281)
Current liabilities	(39,223)	(178,909)
	(148,515)	(397,540)

14. Deposits made

Eskom - electricity	540,778	540,778
	540,778	540,778

15. Trade and other payables

Trade payables	50,774,995	35,646,248
Salary suspense accounts	5,939,139	5,159,395
Deposits received	2,399,542	2,307,826
Accrued interest payable on external borrowings	185,977	167,742
Staff leave accrual	13,871,886	11,192,448
	73,171,539	54,473,659

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
16. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	3,478,320	16,975,435
Electrification Grant	4,248,310	-
LG SETA Grant	84,600	-
	7,811,230	16,975,435
Movement during the year		
Balance at the beginning of the year	16,975,435	3,565,000
Current-year receipts	144,020,000	109,087,000
Conditions met - transferred to revenue	(153,184,205)	(95,676,565)
	7,811,230	16,975,435

The municipality utilised MIG conditional funds amounting to R15,589,865.71 and INEG conditional funds amounting to R7,587,066.83 for other operational purposes as they are not cash backed. These funds were replaced by the equitable share received after year end.

The municipality has complied with all the conditions set by the transferring organ of State or the conditions set by the other institutions who made allocations to the municipality, except for the funds which were utilised for operational purpose as mentioned above. The unspent portion of conditional allocations are disclosed as unspent conditional grants on the face value of the Statement of Financial Position of the municipality.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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17. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Reversed during the year	Total
Landfill Site Provision	1,919,300	-	-	1,919,300
Audit Fees Provision	1,256,335	811,952	(1,256,335)	811,952
Annual Bonus Provision	7,138,857	4,689,223	(7,138,857)	4,689,223
Performance Bonus Provision	108,447	57,149	(108,447)	57,149
Long Service Award Provision	966,880	99,524	(966,880)	99,524
	11,389,819	5,657,848	(9,470,519)	7,577,148

Reconciliation of provisions - 2011

	Opening Balance	Additions	Reversed during the year	Total
Landfill Site Provision	-	1,919,300	-	1,919,300
Audit Fees Provision	-	1,256,335	-	1,256,335
Annual Bonus Provision	3,776,141	7,138,857	(3,776,141)	7,138,857
Performance Bonus Provision	206,393	108,447	(206,393)	108,447
Long Service Award Provision	361,009	966,880	(361,009)	966,880
	4,343,543	11,389,819	(4,343,543)	11,389,819

Long service awards to eligible employees are paid for services rendered by employees of 10 years and longer in five year intervals. These employees are awarded proportionally every five years based on 10 days's basic salary for 10 years service.

Performance bonuses are paid in arrears as the assessment of eligible employees had not taken place at the reporting date and no present obligation exist.

The municipality has provided R1,919,300.00 for the rehabilitation of Steenbok landfill site in 2011 financial year. This cost of rehabilitating the landfill site was provided by SKC Masakhizwe Engineers (Pty) Ltd. The estimated useful life of the landfill site is expected to be 20 years.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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18. Employee benefit obligations

Retirement benefits

Personnel and Councillors are members of the following funds:

Joint Municipal Pension Fund (JMPF)

Municipal Gratuity Fund (MGF)

Municipal Employees Pension Fund (MEPF)

Municipal Councillors Pension Fund (MCPF)

Government Employees Pension Fund

National Fund for Municipal Workers (NFMW)

Valuations

Last known actuarial valuations is as follows:

Actuarial

Interim

Level

The Municipal Gratuity Fund is a defined benefit governed under the Pension Fund Act of 1956. The most recent actuarial valuation indicated that the fund was financially sound.

30-Jun-02

30-Jun-04

Fully Funded

The NFMW is a fixed contribution fund and there is no statutory requirement to do an actuarial valuation

30-Jun-04

30-Jun-05

Fully Funded

The MEPF is a fixed contribution fund.

28-Feb-02

28-Feb-05

Fully Funded

All Councillors and employees belong to the 5 defined benefit retirement funds administered by the Provincial Pension Fund as disclosed above. These funds are subject to a triennial actuarial valuation.

An amount of R31,119,325 (2011: R28,424,640) was contributed by Council in respect of Councillor and employees retirement funding. These contributions have been expensed.

Defined benefit plan

The Municipal Employees Gratuity Fund is a defined benefit plan. This is not treated as defined benefit plan as defined by IAS19, but is accounted for as a defined contribution plan. This is in line with the exemption in IAS19 paragraph 30 which states that where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The defined benefit funds are administered on a provincial basis, but the specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration thereof. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

The Municipality is contributing 60% of medical aid benefit for retired municipal employees. The calculated present value of the medical aid benefit for 10 years is R1,864,425.90

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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19. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Financial liabilities at amortised cost	Total
Other financial liabilities	4,367,666	4,367,666
Trade and other payables	73,171,539	73,171,539
Bank overdraft	(16,223,791)	(16,223,791)
	61,315,414	61,315,414

2011

	Financial liabilities at amortised cost	Total
Other financial liabilities	4,638,004	4,638,004
Trade and other payables	43,281,211	43,281,211
Bank overdraft	12,986,347	12,986,347
	60,905,562	60,905,562

20. Revenue

Property rates	36,457,554	29,014,752
Service charges	57,127,509	54,033,636
Rental of facilities & equipment	2,397,920	3,420,226
Interest earned – debtors	2,171,282	1,310,986
Licences and permits	22,803,079	7,071,112
Government grants & subsidies	386,079,923	292,264,662
	507,037,267	387,115,374

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	57,127,509	54,033,636
Rental of facilities & equipment	2,397,920	3,420,226
Interest earned – debtors	2,171,282	1,310,986
Licences and permits	22,803,079	7,071,112
	84,499,790	65,835,960

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	36,457,554	29,014,752
Government grants & subsidies	386,079,923	292,264,662
	422,537,477	321,279,414

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
21. Property rates		
Rates received		
Residential	18,585,461	37,461,090
Business	14,505,996	2,274,254
Government	1,338,244	2,065,241
Agricultural	2,027,853	-
Less: Income forgone	-	(12,785,833)
	36,457,554	29,014,752

Rates are levied on monthly basis and repayable in twelve equal payments with the final date of payment being the municipality's year end. Interest equal to the prime rate as determined by the South African Reserve bank per annum is levied on outstanding rates.

In cents

Assessment rates are levied as follows

Unimproved Residential Stands	3	3
Improved Residential Stands	1	1
Business	16	15
State Owned	1	1
PSI	4	4
	25	24

Rebates are granted to pensioners, permanent disables persons, consolidated and notarial tide accounts as follow in %:

Consolidated or Notarial tide	-	-
- 2 stands	20	20
- 3 stands	30	30
- 4 stands or more	40	40
Pensioners or Permanent medically disabled	-	-
- income less than R1,200 per month	40	40
- income more than R1,200 less than R2,000 per month	20	20
	150	150

Valuations

Residential	3,726,305,372	2,741,641,945
Business	1,237,966,867	1,498,167,513
Government	406,493,997	521,085,651
Municipal	1,414,627	1,414,627
Provincial	-	1,384,000
Schools	4,899,000	12,810,004
Educational	-	1,281,004
Churches	855,500	-
Industrial	8,947,786	15,430,928
Agriculture	1,087,757,211	665,314,991
Other - Unimproved and industrial	643,136,734	245,095,925
	7,117,777,094	5,703,626,588

Assessment rates are charged on the valuation roll done before demarcation.

Valuations on land are performed every three years and the last general valuation came into effect on the following dates:

- Supplementary valuations 1 May 2011
- General valuations 1 July 2009

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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21. Property rates (continued)

The municipality performed a supplementary valuation roll which commenced on 1 May 2011 and completed on 30 April 2012.

The entity performed the general valuations on 1 July 2009 for the year ending 2009/2010 in all areas of Nkomazi Municipality.

22. Service charges

Sale of electricity	43,326,838	32,894,829
Sale of water	7,540,483	16,241,960
Sewerage and sanitation charges	2,753,653	3,948,487
Refuse removal	3,506,535	948,360
	57,127,509	54,033,636

Electricity distribution losses of 32,080,855 KWh(2011: 21,279,951 kWh) with the calculated value of R26,383,931 (2011: R10,935,754) were suffered. These represent 40% (2011:29.51%) of electricity distribution loss.

23. Rental of facilities and equipment

Facilities and equipment

Rental of facilities	2,361,183	3,386,509
Rental of equipment	36,737	33,717
	2,397,920	3,420,226

24. Investment revenue

Interest revenue

Bank	1,493,411	4,011,543
Fair value adjustment: Notional interest	616,075	519,960
	2,109,486	4,531,503

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
25. Government grants and subsidies		
Disaster Relief Grant	2,863,717	-
Equitable share	230,032,000	196,588,097
Municipal Infrastructure Grant	125,705,116	74,506,565
Water Services Operating and Subsidy Grant	9,059,000	14,920,000
Electrification Grants	15,134,690	4,500,000
LG SETA Grant	1,245,400	-
Financial Management Grant	1,250,000	1,000,000
Municipal Systems Improvement Grant	790,000	750,000
	386,079,923	292,264,662

Equitable Share

In terms of the Division of Revenue Act, the annual equitable share allocated to the municipality is an unconditional grant. A portion of this grant is used to subsidise the provision of basic services to indigent community members in line with national policy.

Municipal Infrastructure Grant

Balance unspent at beginning of year	16,975,435	-
Current-year receipts	112,208,000	91,482,000
Conditions met - transferred to revenue	(125,705,115)	(74,506,565)
	3,478,320	16,975,435

The grant is intended to provide capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions, to provide for new, rehabilitation and upgrading of municipal infrastructure and to eradicate the bucket sanitation system mainly in urban townships.

Financial Management Grant

Current year - receipts	1,250,000	1,000,000
Conditions met - transferred to revenue	(1,250,000)	(1,000,000)
	-	-

This grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

Electrification Grant

Current-year receipts	19,383,000	4,500,000
Conditions met - transferred to revenue	(15,134,690)	(4,500,000)
	4,248,310	-

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
25. Government grants and subsidies (continued)		
Water Services Operating and Subsidy Grant		
Balance unspent at beginning of year	-	3,565,000
Current-year receipts	9,059,000	11,355,000
Conditions met - transferred to revenue	(9,059,000)	(14,920,000)
	-	-
Municipal System Improvement Grant		
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	(750,000)
	-	-
This grant is intended to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government Systems Act and related legislation and policies.		
Changes in level of government grants		
Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.		
Disaster Relief Grant		
Current-year receipts	2,863,717	-
Conditions met - transferred to revenue	(2,863,717)	-
	-	-
LG SETA Grant		
Current-year receipts	1,330,000	-
Conditions met - transferred to revenue	(1,245,400)	-
	84,600	-
26. Other revenue		
Recovery	799,547	630,693
Donations received	1,162,800	-
Other income	3,887,234	5,178,242
	5,849,581	5,808,935
27. Other income		
Building Plan Fees	351,806	430,969
Entrance Fees	1,140,451	921,050
Fire Fighting Services	1,558	751
Library membership fees	25,398	28,847
Sale of Game	64,912	115,789
Search Fees	454,841	229,342
Seta Training Refund	920,090	112,103
Sundry	242,845	2,644,856
Tender documents	80,953	141,946
Traffic fines	604,380	552,589
	3,887,234	5,178,242

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
28. Employee related costs		
Salaries and wages	100,805,004	105,394,022
Medical aid, UIF and pension fund contributions	27,916,834	19,216,567
Bonus	5,452,741	10,632,172
Overtime payments	15,058,372	10,590,090
Allowances	7,801,243	5,760,285
Housing benefits and allowances	2,013,533	1,294,956
Other employee related costs	45,051	31,976
Standby	2,996,976	1,771,962
Temporary employees	4,391,666	12,487
Subsistence and transport	7,684,270	6,561,446
	174,165,690	161,265,963
Remuneration of Municipal Manager		
Annual Remuneration	349,432	-
Travel, car and other allowances	72,924	-
Contributions to UIF, Medical and Pension Funds	77,648	-
	500,004	-
Remuneration of Acting Municipal Manager		
Acting allowance	66,638	174,419
Remuneration of Chief Finance Officer		
Annual Remuneration	114,263	651,703
Travel, car and other allowances	24,000	118,394
Contributions to UIF, Medical and Pension Funds	25,396	131,838
	163,659	901,935
Remuneration of Acting Chief finance Officer		
Acting allowance	257,169	249,631
Remuneration of Director - Technical Services		
Annual Remuneration	82,077	133,474
Travel, car and other allowances	28,000	23,390
Contributions to UIF, Medical and Pension Funds	22,962	21,723
	133,039	178,587
Remuneration of Acting Director - Technical Services		
Acting allowance	105,086	189,020
Remuneration of Director - Community Services		
Annual Remuneration	384,624	539,381
Travel, car and other allowances	86,201	123,963
Contributions to UIF, Medical and Pension Funds	68,337	109,423
	539,162	772,767

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
28. Employee related costs (continued)		
Remuneration of Acting Director - Community Services		
Acting allowance	134,441	179,930
Remuneration of Director - Planning and Development		
Annual Remuneration	393,445	546,077
Travel, car and other allowances	47,000	64,427
Contributions to UIF, Medical and Pension Funds	86,621	137,910
	527,066	748,414
Remuneration of Acting Director - Planning and development		
Acting allowance	67,013	-
Remuneration of Director - Corporate Services		
Annual Remuneration	43,776	-
Travel, car and other allowances	12,000	-
Contributions to UIF, Medical and Pension Funds	9,759	-
	65,535	-
Remuneration of Acting Director - Corporate Services		
Acting allowance	142,579	179,930
29. Remuneration of Councillors		
Executive Mayor	678,777	577,938
Speaker	527,118	485,183
Mayoral Committee Members	2,503,531	2,292,822
Councillors	7,351,165	6,600,008
Councillors' pension and other contributions	1,440,425	1,011,595
Councillors' Allowances	3,366,568	3,139,706
	15,867,584	14,107,252
In-kind benefits		
The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Executive Mayor has use of a Council owned vehicle for official duties and has a full time bodyguard.		
30. Depreciation and amortisation		
Property, plant and equipment	58,794,613	39,543,769
Intangible assets	52,810	38,884
	58,847,423	39,582,653

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
31. Impairment of assets		
Impairments		
Property, plant and equipment	1,129,105	-
The circumstances that led to the recognition of the impairment loss was due to physical damage to the assets. The recoverable amount of the asset was based on its fair value less costs to sell.		
The main classes of assets affected by impairment losses are:		
Buildings		
Infrastructure Roads		
Fair value less cost to sell		
Fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity could consider the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, unless management is compelled to sell immediately.		
32. Finance costs		
Finance leases	368,765	528,954
Non-current borrowings	1,496,105	2,580,233
	1,864,870	3,109,187
33. Debt impairment		
Contributions to debt impairment provision	1,962,811	(1,541,772)
Bad debts written off	5,918,012	-
	7,880,823	(1,541,772)
34. Contracted services		
Services rendered - FMS Support Services	2,414,839	3,921,781
Transport of Money	270,290	297,565
	2,685,129	4,219,346
35. Bulk purchases		
Electricity	51,861,419	35,174,823
Water	942,298	583,828
	52,803,717	35,758,651

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
36. General expenses		
Advertising	870,304	804,101
Auditors remuneration	1,782,089	3,875,696
Bank charges	408,139	470,909
Bursaries	11,651	99,946
Cleaning Material	93,676	71,027
Conferences	192,806	312,700
Consulting and professional fees	14,025,028	13,106,955
Consumables	12,627,758	7,337,008
Data cleansing	732,960	-
Debt collection commission	798,094	152,990
Disaster Management	3,788,900	480,335
Electricity consumption	14,767,934	7,470,647
Entertainment	337,780	241,399
Fuel and Oil	8,427,459	8,496,738
IT systems	3,062,704	2,784,460
Insurance	1,482,604	1,713,549
Irrecoverable VAT	-	15,279,239
Licence and permits	14,931,754	-
License fees	30,652	23,158
Mayoral outreach	141,828	247,406
Membership Fees	946,451	1,037,773
Municipal services	5,010,860	3,529,812
Networks and substations	1,195,642	879,846
New Connections	2,031,621	2,483,395
Occupational Health and Safety	99,500	-
Other expenses	271,898	233,992
Pest control	69,649	24,539
Postage and courier	176,789	268,119
Printing and stationery	1,092,160	703,408
Projects	10,489,937	15,139,228
Public Permits Staff	5,094	69,956
Refuse bags and holders	887,136	160,364
Rehabilitation of Landfill Site	2,003,688	1,919,300
Rental of property and equipment	4,456,567	7,097,975
Security	8,979,913	6,804,196
Skills development levy	1,421,628	1,574,952
Sport Events	361,331	383,324
Stock and Material	532,194	-
Student financial aid support	61,131	-
Supplementary valuation roll	1,271,838	166,104
System development and support	161,667	188,781
Telephone and fax	2,065,759	3,334,662
Title deed search fees	10,698	17,174
Tollgate Fees	135,327	157,243
Town Planning	3,328,568	296,431
Traditional council	60,577	-
Training	3,252,685	1,130,784
Transveral unit	671,458	360,360
Travel - Local	1,449,478	1,580,368
Uniforms	1,765,984	1,996,768
Ward Committees	158,267	22,014
Water Quality Monitoring	1,760,048	3,519,394
	134,699,663	118,048,525
37. Auditors' remuneration		
Fees	1,782,089	3,875,696

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
38. Cash generated from operations		
Surplus (deficit)	40,581,020	(6,337,056)
Adjustments for:		
Depreciation and amortisation	58,847,423	39,582,653
Finance costs - Finance leases	368,765	528,954
Impairment deficit	1,129,105	-
Bad debt provision	7,880,823	(1,541,772)
Movements in operating lease assets and accruals	(249,025)	89,829
Movements in provisions	(3,812,671)	8,921,963
Non-cash movements made to PPE	-	16,945,313
Adjustment to Accumulated surplus	6,614,228	-
Donations received	(1,162,800)	-
Changes in working capital:		
Inventories	(257,554)	(341,051)
Receivables from exchange transactions	(145,205)	-
Other receivables	-	610,575
Consumer debtors	(6,014,342)	(6,183,366)
Deposits made	-	4,671
Trade and other payables	18,697,879	(6,116,152)
VAT	4,616,258	8,333,903
Unspent conditional grants and receipts	(9,164,205)	13,410,435
	117,929,699	67,908,899

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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39. Capital Commitments

Authorised capital expenditure

Approved and already contracted for but not provided for

• Infrastructure	118,941,244	123,159,801
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This committed expenditure relates mainly to infrastructure development and will be financed by available government and other grants, bank facilities, and retained surpluses.

Funding sources

This expenditure will be financed from:

- Government and Other Grants	118,941,244	123,159,801
-------------------------------	-------------	-------------

Operating leases - as lessee (expense)

Minimum lease payments due

- not later than one year	989,495	1,965,161
- later than one year and not later than five years	318,529	1,308,024
	1,308,024	3,273,185

Operating lease payments represent rentals payable by the municipality for certain of its properties. Leases are negotiated for an average term of three years to five years and rentals escalated by 10% per annum. No contingent rent is payable.

Operating leases - as lessor (income)

Minimum lease payments due

- within one year	159,128	166,336
- in second to fifth year inclusive	570,689	577,161
- later than five years	383,903	600,177
	1,113,720	1,343,674

Operating lease payments represent rentals receivable by the municipality for certain of its properties. Leases are negotiated for up to maximum term of 9 years 11 months and rental escalates between 0% to 10% per annum. No contingent rent is receivable.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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40. Contingencies

Contingent liabilities

A Lubbe - Claim of R109,626.64 against unfair dismissal.

IMATU O.B.O L Lubisi - Claim of R120,270.00 for travel allowance.

SM Shabangu - challenge against alleged unfair dismissal and anticipated costs claim of R22,000,000.00

Claim from Silinda Mokoena & Associates (Valuer) case no 64255/09 claims R1,264,063 for work done on the valuation roll for the municipality and the municipality lodged a counter claim of R10,794,701.27 against the Valuer because the valuation roll is incorrect and the Valuer failed to make corrections as requested by the municipality. The municipality lodged its claim because it is losing possible revenue due to the incorrectness of the valuation roll.

Biz Africa 1002 (Pty) Ltd - Claim for suffered damages caused by fire amounting to R1,500,000.00

Contingent assets

Valor IT - Claim for recovery of amount paid to Valor IT to the value of R4,577,236.80 for breach of contract.

Tarfix - Claim by the Municipality of refund amounting to R3 224 678.43 paid to Mendelow-Jacobs Attorneys if Tarfix lose the case against the municipality.

41. Related parties

Relationships

Business entity of close family member of key management personnel

Mnyasa Trading

Business entities of municipal employees

Bilani Security (P Shongwe)

Post employment benefit plan for employees of municipality

Refer to Note on Employee Retirement Benefit Plans

Remuneration of key management personnel

Refer to note on compensation to Municipal Manager, Chief Financial Officer, Executive Directors, Mayoral Committee and Other Councillors

As an organ of state, the municipality render normal consumer services to other organs of state like Department of Health, Department of Roads and Transport, etc.

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties

Department of Health	31,766	426,909
Department of Roads and Transport	51,074	50,246
Department of Health	(94,152)	-
Department of Roads and Transport	(5,357)	-

Related party transactions

Purchases from (sales to) related parties

Bilani Security	1,276,357	1,420,464
Department of health	51,974	-
Department of Roads and Transport	161,104	-
Bucwebe Trading	-	14,550
Mnyasa Trading	86,750	135,544

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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42. Prior period errors

Certain balances of property, plant and equipment have been changed due to correction of prior period landfill site processed to expense vote, accumulated depreciation incorrectly classified, fair value of assets that were on floor but not on asset register, assets that were disposed but still on asset register and correction of accumulated depreciation for assets still in use but fully depreciated.

Certain balances of property, plant and equipment have been changed as a result of classification errors, assets procured in incorrect accounting period and fair valuation of assets initially recognised at zero value.

Additional properties land and investment property have been accounted due to an error of assets not included on the asset register.

Unspent grants were transferred to revenue as they were incorrectly classified.

Finance leases liability was incorrectly calculated and the prior balance was adjusted.

Intangible assets were incorrectly derecognised.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Property, plant and equipment	(2,972,979)	(2,972,979)
Accumulated Surplus	2,972,979	2,972,979
Accumulated Surplus	-	(27,921,043)
Finance leases	-	163,112
Unspent Grants	-	25,564,215
Intangible assets - Accum depreciation	-	(3,243)
Intangible assets - cost	-	194,555
Property, plant & equipment - cost	-	3,147,265
Property, plant & equipment - Accum depreciation	-	(1,144,861)
Accumulated surplus	-	(745,463)
Work in progress	-	745,463
Accumulated surplus	-	(968,500)
Unspent grant - INEG	-	968,500
Accumulated surplus	-	(29,769,299)
Investment property - cost	-	29,769,299
Accumulated surplus	-	(402,409,975)
Land - cost	-	402,409,975

43. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

Nkomazi Local Municipality is not exposed to interest rate risk on its financial liabilities. All the Municipalities interest bearing external loan liabilities, as detailed in Appendix A, are fixed interest rates.

Credit risk

Credit Risk consists mainly of cash deposits, cash equivalents and consumer debtors. The municipality only deposits cash with major banks. Credit Risk related to consumer debtors is managed in accordance with the Councils credit control and debt collection policy. The Council's credit exposure is spread over a large number and wide variety of consumers, and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad and doubtful debts.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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44. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

45. Unauthorised expenditure

Unauthorised expenditure - Opening balance	150,097,739	101,311,364
Unauthorised expenditure - Current year	100,827,960	77,420,711
Unauthorised expenditure - Condoned by Council	(150,097,739)	(40,607,771)
MIG unauthorised expenditure	-	11,973,435
	100,827,960	150,097,739

The unauthorised expenditure of R100,827,960 is awaiting for authorisation, however there were savings on other operational expenditure votes to the value of R67,909,086.79 and capital expenditure votes to the value of R70,752,822.06

46. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - Opening balance	2,359,826	88,745
Fruitless and wasteful expenditure - Current year	583,105	2,271,081
	2,942,931	2,359,826

Fruitless and wasteful expenditure of R2,942,931 is awaiting for authorisation.

47. Irregular expenditure

Irregular expenditure - Opening balance	36,208,849	18,425,884
Irregular expenditure - Current year	1,215,564	1,397,331
Irregular expenditure - Condoned by Council	(18,954,377)	(1,279,436)
Other irregular expenditure	-	17,665,070
	18,470,036	36,208,849

Irregular expenditure of R18,470,036 is awaiting for authorisation

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	(1,650)	(1,650)
Current year membership fee	90,192	85,389
Amount paid - current year	(82,550)	(85,389)
Ajustment to opening balance	1,650	-
Due and payable	7,642	(1,650)

Audit fees

Opening balance	1,256,335	(2,850)
Current year fee	811,952	1,556,335
Amount paid - current year	-	(297,150)
Amount paid - previous years	(1,256,335)	-
Due and payable	811,952	1,256,335

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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48. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Opening balance	247,626	141,364
Current year deductions and contributions	19,433,608	17,821,087
Amount paid - current year	(17,870,359)	(17,714,825)
Amount paid - previous years	(247,626)	-
	1,563,249	247,626

Pension and Medical Aid Deductions

Opening balance	88,879	57,839
Current year deductions and contributions	41,152,269	37,134,790
Amount paid - current year	(37,616,413)	(37,103,750)
Amount paid - previous years	(88,879)	-
	3,535,856	88,879

VAT

VAT receivable	4,637,644	9,253,902
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VAT output payables and VAT input receivables are shown in note .

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2012

30 June 2012	Outstanding more than 90 days R	Total R
Councillor MAMBANE DS	- 39,702	39,702

No Councillors' had arrear accounts outstanding for more than 90 days for the year ended 30 June 2011.

Deviations

Incident

Deviations - Opening balance	940,265	-
Deviations - current year	12,751,347	9,790,652
Deviations noted by council	(10,940,881)	(8,850,387)
	2,750,731	940,265

Deviations of R2,750,731 is awaiting to be noted by council.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

49. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Property rates	48,000,000	-	48,000,000	36,457,554	11,542,446	76 %	76 %
Service charges	59,618,850	-	59,618,850	57,127,509	2,491,341	96 %	96 %
Investment revenue	7,021,838	(5,000,000)	2,021,838	2,109,486	(87,648)	104 %	30 %
Transfers recognised - operational	245,591,000	3,509,616	249,100,616	386,079,923	(136,979,307)	155 %	157 %
Other own revenue	15,881,832	(67,353)	15,814,479	33,221,862	(17,407,383)	210 %	209 %
Total revenue (excluding capital transfers and contributions)	376,113,520	(1,557,737)	374,555,783	514,996,334	(140,440,551)	137 %	137 %
Employee costs	(171,092,584)	(607,194)	(171,699,778)	(176,867,081)	5,167,303	103 %	103 %
Remuneration of councillors	(14,637,236)	1,329,934	(13,307,302)	(15,867,584)	2,560,282	119 %	108 %
Debt impairment	(1,200,000)	(11,300,000)	(12,500,000)	(7,880,823)	(4,619,177)	63 %	657 %
Depreciation and asset impairment	(7,437,598)	(44,469,331)	(51,906,929)	(59,976,528)	8,069,599	116 %	806 %
Finance charges	(1,347,041)	-	(1,347,041)	(1,864,870)	517,829	138 %	138 %
Materials and bulk purchases	(56,553,631)	(181,303)	(56,734,934)	(52,803,717)	(3,931,217)	93 %	93 %
Other expenditure	(124,989,997)	(13,334,640)	(138,324,637)	(159,154,711)	20,830,074	115 %	127 %
Total expenditure	(377,258,087)	(68,562,534)	(445,820,621)	(474,415,314)	28,594,693	106 %	126 %
Surplus/(Deficit) for the year	(1,144,567)	(70,120,271)	(71,264,838)	40,581,020	(111,845,858)	(57)%	(3,546)%

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

49. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources							
Total capital expenditure	155,896,000	-	155,896,000	49,899,424	105,996,576	32 %	32 %
Cash flows							
Net cash from (used) operating	128,365,963	(331,121)	128,034,842	117,929,699	10,105,143	92 %	92 %
Net cash from (used) investing	(140,306,400)	(34,458,092)	(174,764,492)	(111,903,992)	(62,860,500)	64 %	80 %
Net cash from (used) financing	3,851,646	-	3,851,646	(1,703,055)	5,554,701	(44)%	(44)%
Net increase/(decrease) in cash and cash equivalents	(8,088,791)	(34,789,213)	(42,878,004)	4,322,652	(47,200,656)	(10)%	(53)%
Cash and cash equivalents at the beginning of the year	10,000,000	(13,040,386)	(3,040,386)	(3,040,386)	-	100 %	(30)%
Cash and cash equivalents at year end	1,911,209	(47,829,599)	(45,918,390)	1,282,266	(47,200,656)	(3)%	67 %

Nkomazi Local Municipality

Appendix A

June 2012

Schedule of external loans as at 30 June 2012

Loan Number	Redeemable	Balance at 30 June 2011	Received during the period	Redeemed written off during the period	Balance at 30 June 2012	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		

Development Bank of South Africa

Loan @ 15.26% (Electricity)	61002240	2011	13,655	-	13,655	-	-
Loan @ 15.8% (Electricity)	61002607	2010	-	-	-	-	-
Loan @ 15.8% (Roads)	61002608	2010	-	-	-	-	-
Loan @ 15.8% (Registration Authority)	61002609	2010	-	-	-	-	-
Loan @ 15.26% (Purchase of farm, Lionspruit)	61002394	2012	549,206	-	140,577	408,629	-
Loan @ 16.5% (Upgrading of Malelane Infrastructure)	61003108	2019	4,075,143	-	116,165	3,958,978	-
Loan @ 15.26%	61002393	2012	72	-	15	57	-
			4,638,076	-	270,412	4,367,664	-

INCA loan Lease liability Total external loans

Development Bank of South Africa			4,638,076	-	270,412	4,367,664	-
			4,638,076	-	270,412	4,367,664	-

Nkomazi Local Municipality

Appendix B

June 2012

Analysis of property, plant and equipment as at 30 June 2012

Cost

Accumulated depreciation

	Opening Balance	Additions	Disposals	Transfers - WIP completed	Other movements	Closing Balance	Opening Balance	Disposals	Impairment loss	Depreciation	Closing Balance	Carrying value
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Land and buildings												
Land - Undeveloped	7,563,134	-	-	-	-	7,563,134	-	-	-	-	-	7,563,134
Land - Developed	427,259,169	-	-	-	-	427,259,169	-	-	-	-	-	427,259,169
Buildings - Residential	12,753,769	229,137	-	-	-	12,982,906	(2,224,728)	-	-	(522,371)	(2,747,099)	10,235,807
Buildings - Operational	81,316,601	4,035,505	-	3,657,897	-	89,010,003	(11,147,683)	-	(436,852)	(5,949,025)	(17,533,560)	71,476,443
Work in progress	3,657,897	1,128,139	-	(3,657,897)	-	1,128,139	-	-	-	-	-	1,128,139
	532,550,570	5,392,781	-	-	-	537,943,351	(13,372,411)	-	(436,852)	(6,471,396)	(20,280,659)	517,662,692
Infrastructure												
Main: Roads and stormwater	131,039,565	31,906,063	-	22,532,901	-	185,478,529	(24,277,626)	-	(692,253)	(19,111,377)	(44,081,256)	141,397,273
Sewerage mains & purification	5,894,242	2,992,962	-	1,838,418	-	10,725,622	(356,770)	-	-	(180,091)	(536,861)	10,188,761
Main: Electricity	56,508,428	-	-	-	-	56,508,428	(6,923,867)	-	-	(1,940,601)	(8,864,468)	47,643,960
Main: Water and purification	438,300,741	6,937,240	-	7,954,693	-	453,192,674	(60,800,661)	-	-	(22,347,487)	(83,148,148)	370,044,526
Solid waste	6,337,939	346,791	-	488,250	-	7,172,980	(107,231)	-	-	(140,669)	(247,900)	6,925,080
Work in progress	73,704,276	61,947,601	-	(32,814,262)	-	102,837,615	-	-	-	-	-	102,837,615
	711,785,191	104,130,657	-	-	-	815,915,848	(92,466,155)	-	(692,253)	(43,720,225)	(136,878,633)	679,037,215
Other Assets												
Furniture and office equipment	7,679,712	233,685	-	-	-	7,913,397	(3,453,242)	-	-	(1,069,571)	(4,522,813)	3,390,584
Machinery and equipment	18,419,138	2,257,862	-	-	-	20,677,000	(6,972,380)	-	-	(1,502,895)	(8,475,275)	12,201,725
Computer equipment	12,958,446	345,370	-	-	-	13,303,816	(7,810,286)	-	-	(2,040,428)	(9,850,714)	3,453,102
Transport assets	33,994,797	614,810	-	-	-	34,609,607	(14,305,401)	-	-	(3,990,097)	(18,295,498)	16,314,109
	73,052,093	3,451,727	-	-	-	76,503,820	(32,541,309)	-	-	(8,602,991)	(41,144,300)	35,359,520

Nkomazi Local Municipality

Appendix B

June 2012

Analysis of property, plant and equipment as at 30 June 2012

Cost

Accumulated depreciation

	Opening Balance	Additions	Disposals	Transfers - WIP completed	Other movements	Closing Balance	Opening Balance	Disposals	Impairment loss	Depreciation	Closing Balance	Carrying value
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Heritage assets												
Historical Assets	5,613,947	-	-	-	-	5,613,947	-	-	-	-	-	5,613,947
	5,613,947	-	-	-	-	5,613,947	-	-	-	-	-	5,613,947
Investment Property												
Investment property	37,937,199	-	-	-	-	37,937,199	-	-	-	-	-	37,937,199
	37,937,199	-	-	-	-	37,937,199	-	-	-	-	-	37,937,199
Intangible Assets												
Computer software	194,555	91,631	-	-	-	286,186	(42,127)	-	-	(52,810)	(94,937)	191,249
	194,555	91,631	-	-	-	286,186	(42,127)	-	-	(52,810)	(94,937)	191,249
Total property plant and equipment	1,361,133,555	113,066,796	-	-	-	1,474,200,351	(138,422,002)	-	(1,129,105)	(58,847,422)	(198,398,529)	1,275,801,822
Intangible assets												
Investment properties												
Total												
Land and buildings	532,550,570	5,392,781	-	-	-	537,943,351	(13,372,411)	-	(436,852)	(6,471,396)	(20,280,659)	517,662,692
Infrastructure	711,785,191	104,130,657	-	-	-	815,915,848	(92,466,155)	-	(692,253)	(43,720,225)	(136,878,633)	679,037,215
Other Assets	73,052,093	3,451,727	-	-	-	76,503,820	(32,541,309)	-	-	(8,602,991)	(41,144,300)	35,359,520
Heritage assets	5,613,947	-	-	-	-	5,613,947	-	-	-	-	-	5,613,947
Investment Property	37,937,199	-	-	-	-	37,937,199	-	-	-	-	-	37,937,199
Intangible Assets	194,555	91,631	-	-	-	286,186	(42,127)	-	-	(52,810)	(94,937)	191,249
	1,361,133,555	113,066,796	-	-	-	1,474,200,351	(138,425,245)	-	(1,129,105)	(58,847,422)	(198,401,772)	1,275,798,579

Nkomazi Local Municipality

Appendix C

June 2012

Segmental analysis of property, plant and equipment as at 30 June 2012

Cost Accumulated Depreciation

	Opening Balance Rand	Additions Rand	Closing Balance Rand	Opening Balance Rand	Depreciation Rand	Closing Balance Rand	Carrying value Rand
Municipality							
Executive & Council/Mayor and Council	2,075,406	614,810	2,690,216	(1,178,811)	(397,604)	(1,576,415)	1,113,801
Budget & Treasury Office	30,991,035	167,643	31,158,678	(2,323,708)	(649,012)	(2,972,720)	28,185,958
Corporate services	456,425,945	1,558,485	457,984,430	(11,362,505)	(7,244,279)	(18,606,784)	439,377,646
Community & Social Services	111,149,932	5,800,324	116,950,256	(26,817,924)	(6,908,248)	(33,726,172)	83,224,084
Planning & Development	2,040,941	74,000	2,114,941	(244,375)	(68,695)	(313,070)	1,801,871
Civil Administration & PMU	7,285,363	-	7,285,363	(904,849)	(243,399)	(1,148,248)	6,137,115
Waste Water Management/Sewerage	15,159,640	3,125,502	18,285,142	(291,883)	(320,760)	(612,643)	17,672,499
Water/Water Distribution	468,917,557	55,320,706	524,238,263	(52,568,753)	(22,347,487)	(74,916,240)	449,322,023
Electricity /Electricity Distribution	85,601,785	12,055,403	97,657,188	(23,780,679)	(1,940,602)	(25,721,281)	71,935,907
Roads transport/Roads	143,262,565	34,349,923	177,612,488	(18,906,403)	(19,803,630)	(38,710,033)	138,902,455
	1,322,910,169	113,066,796	1,435,976,965	(138,379,890)	(59,923,716)	(198,303,606)	1,237,673,359
Total							
Municipality	1,322,910,169	113,066,796	1,435,976,965	(138,379,890)	(59,923,716)	(198,303,606)	1,237,673,359
	1,322,910,169	113,066,796	1,435,976,965	(138,379,890)	(59,923,716)	(198,303,606)	1,237,673,359

Nkomazi Local Municipality

Appendix D

June 2012

Segmental Statement of Financial Performance for the year ended 30 June 2012

Prior Year

Current Year

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
Municipality						
495,255	23,949,188	(23,453,933)	Executive & Council/Mayor and Council	-	26,462,329	(26,462,329)
127,559,494	74,407,321	53,152,173	Budget & Treasury Office	19,208,972	52,842,843	(33,633,871)
3,814,865	39,039,094	(35,224,229)	Corporate services	5,371,619	39,370,610	(33,998,991)
25,397,432	70,905,934	(45,508,502)	Community & Social Services	49,514,777	95,288,606	(45,773,829)
258,016	3,526,730	(3,268,714)	Planning & Development	386,219	13,763,280	(13,377,061)
3,270,368	14,197,342	(10,926,974)	Civil Administration & PMU	3,029,616	13,350,308	(10,320,692)
4,044,783	11,196,266	(7,151,483)	Waste Water Management/Sewerage	2,753,653	10,812,635	(8,058,982)
720,265	21,161,841	(20,441,576)	Road Transport/Roads	1,170,751	37,228,020	(36,057,269)
159,608,895	86,633,258	72,975,637	Water/Water Distribution	340,594,985	105,459,277	235,135,708
72,286,438	58,775,893	13,510,545	Electricity /Electricity Distribution	92,965,742	79,837,406	13,128,336
397,455,811	403,792,867	(6,337,056)		514,996,334	474,415,314	40,581,020
Other charges						
397,455,811	403,792,867	(6,337,056)	Municipality	514,996,334	474,415,314	40,581,020
397,455,811	403,792,867	(6,337,056)	Total	514,996,334	474,415,314	40,581,020

**Actual versus Budget(Revenue and Expenditure) for the year ended 30 June
2012**

	Current year 2012 Act. Bal.	Current year 2012 Bud. Amt	Variance		Explanation of Significant Variances greater than 10% versus Budget
	Rand	Rand	Rand	Var	
Revenue					
Property rates	36,457,554	48,000,000	(11,542,446)	(24.0)	
Service charges	57,127,509	59,618,850	(2,491,341)	(4.2)	
Rental of facilities and equipment	2,397,920	1,507,564	890,356	59.1	
Interest received (trading)	2,171,282	-	2,171,282	-	
Fines	-	1,506,174	(1,506,174)	(100.0)	
Licences and permits	22,803,079	42,451	22,760,628	,616.2	
Government grants & subsidies	386,079,923	249,100,616	136,979,307	55.0	
Recoveries	799,547	-	799,547	-	
Donations received	1,162,800	-	1,162,800	-	
Other income	3,887,234	12,758,290	(8,871,056)	(69.5)	
Interest received - investment	2,109,486	2,021,838	87,648	4.3	
	514,996,334	374,555,783	140,440,551	37.5	

Nkomazi Local Municipality

Appendix E(1)

June 2012

**Actual versus Budget(Revenue and Expenditure) for the year ended 30 June
2012**

	Current year 2012 Act. Bal.	Current year 2012 Bud. Amt	Variance	Explanation of Significant Variances greater than 10% versus Budget
Expenses				
Personnel	(176,867,081)	(171,699,778)	(5,167,303)	3.0
Remuneration of councillors	(15,867,584)	(13,307,302)	(2,560,282)	19.2
Depreciation, amortisation and asset impairment	(59,976,529)	(51,906,929)	(8,069,600)	15.5
Amortisation	-	-	-	-
Finance costs	(1,864,870)	(1,347,041)	(517,829)	38.4
Debt impairment	(7,880,822)	(12,500,000)	4,619,178	(37.0)
Repairs and maintenance	(21,769,919)	(28,415,628)	6,645,709	(23.4)
Bulk purchases	(52,803,717)	(56,734,934)	3,931,217	(6.9)
Contracted Services	(2,685,129)	(8,391,488)	5,706,359	(68.0)
General Expenses	(134,699,663)	(101,517,521)	(33,182,142)	32.7
Net deficit for the year	(474,415,314)	(445,820,621)	(28,594,693)	6.4
	40,581,020	(71,264,838)	111,845,858	(156.9)
Loss for the year	40,581,020	(71,264,838)	111,845,858	(156.9)

Nkomazi Local Municipality

Appendix E(2)

June 2012

Budget Analysis of Capital Expenditure as at 30 June 2012

	Additions	Original	Revised	Variance	Variance	Explanation of significant
	Rand	Budget	Budget	Rand	%	variances from budget
		Rand	Rand			
Municipality						
Executive & Council/Mayor and Council	614,810	704,000	704,000	315,917	45	
Budget & Treasury	167,643	1,550,000	1,732,673	1,565,030	90	
Corporate Services	1,558,485	2,260,000	2,260,000	3,219,253	142	
Planning & Development	74,000	2,400,000	2,400,000	2,326,000	97	
Community & Social Services	5,800,324	13,906,000	10,017,614	4,217,290	42	
Infrastructure Development	104,851,534	135,076,000	157,900,202	53,048,668	34	
	113,066,796	155,896,000	175,014,489	64,692,158	37	

Nkomazi Local Municipality

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

June 2012

Name of Grants	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld				
EQS	36,000	55,000	41,000	-	230,032,000	-	-	-	-	-	-	-	-	-	-
MIG	04,000	51,000	53,000	-	112,208,000	-	-	-	-	-	-	-	-	-	-
DWAF	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DSAC Library	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FMG	50,000	-	-	-	1,250,000	-	-	-	-	-	-	-	-	-	-
MIG PMU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSIG	-	90,000	-	-	790,000	-	-	-	-	-	-	-	-	-	-
WSOG	95,000	95,000	69,000	-	9,059,000	-	-	-	-	-	-	-	-	-	-
INEG	32,000	51,000	-	-	19,383,000	-	-	-	-	-	-	-	-	-	-
DRG	63,717	-	-	-	2,863,717	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	80,717	42,000	63,000	-	375,585,717	-	-	-	-	-	-	-	-	-	-

Note : above amounts are in millions (R'000)